

FINANCIAL STATEMENTS

Kalkaska County Hospital Authority  
Years Ended June 30, 2006 and 2005

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                               |   |                    |
|--|-------------------------------|---|--------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                               | Local Unit Name<br>Kalkaska County Hospital Authority     | County<br>Kalkaska |
| Fiscal Year End<br>June 30, 2006   | Opinion Date<br>July 28, 2006 | Date Audit Report Submitted to State<br>February 15, 2007 |                    |

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |             |
|--|-------------------------------------|--|-------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |             |
| Financial Statements   | <input checked="" type="checkbox"/> |  |             |
| The letter of Comments and Recommendations   | <input type="checkbox"/>            | No matters reported.                       |             |
| Other (Describe)   | <input type="checkbox"/>            | No other documents.                        |             |
| Certified Public Accountant (Firm Name)<br>Ernst & Young LLP   |                                     | Telephone Number<br>(616) 774-0710         |             |
| Street Address<br>171 Monroe Avenue, Suite 1000  |                                     | City<br>Grand Rapids                       | State<br>MI |
| Zip<br>49503   |                                     |  |             |
| Authorizing CPA Signature<br> | Printed Name<br>Martin R. Jennings  | License Number<br>110121611                |             |

# Kalkaska County Hospital Authority

## Financial Statements

Years Ended June 30, 2006 and 2005

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## Report of Independent Auditors

The Board of Directors  
Kalkaska County Hospital Authority

We have audited the accompanying statement of net assets of Kalkaska County Hospital Authority as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Kalkaska County Hospital Authority for the year ended June 30, 2005, were audited by other auditors whose report dated August 16, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Kalkaska County Hospital Authority at June 30, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2006, on our consideration of Kalkaska County Hospital Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying financial statements do not present management's discussion and analysis of the Authority's financial position and operating results. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

*Ernst & Young LLP*

July 28, 2006

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of the Financial Statements Performed in Accordance With  
*Government Auditing Standards***

The Board of Directors  
Kalkaska County Hospital Authority

We have audited the consolidated financial statements of Kalkaska County Hospital Authority (the Authority) as of and for the year ended June 30, 2006, and have issued our report thereon dated July 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

July 28, 2006

# Kalkaska County Hospital Authority

## Statements of Net Assets

|   | June 30              |                      |
|---|----------------------|----------------------|
|   | 2006                 | 2005                 |
| <b>Assets</b>                                   |                      |                      |
| Current assets:                                 |                      |                      |
| Cash and cash equivalents                       | \$ 2,956,072         | \$ 2,451,361         |
| Accounts receivable                             | 1,886,527            | 1,852,592            |
| Third-party settlements                         | 791,114              | 765,302              |
| Prepaid expenses                                | 327,523              | 297,266              |
| Total current assets                            | 5,961,236            | 5,366,521            |
| Assets limited as to use                        | 3,275,741            | 2,286,933            |
| Property and equipment                          | 12,113,257           | 12,682,957           |
| Deferred charges                                | 4,729                | 11,036               |
| Total assets                                    | <u>\$ 21,354,963</u> | <u>\$ 20,347,447</u> |
| <b>Liabilities and net assets</b>               |                      |                      |
| Current liabilities:                            |                      |                      |
| Current maturities – long-term debt             | \$ 750,000           | \$ 700,000           |
| Trade accounts payable                          | 947,433              | 893,776              |
| Third-party settlements                         | 572,300              | 312,750              |
| Accrued liabilities and other                   | 1,646,611            | 1,576,621            |
| Total current liabilities                       | 3,916,344            | 3,483,147            |
| Long-term debt, less current maturities         | –                    | 750,000              |
| Total liabilities                               | <u>3,916,344</u>     | <u>4,233,147</u>     |
| Net assets:                                     |                      |                      |
| Invested in capital assets, net of related debt | 11,363,257           | 11,232,957           |
| Unrestricted                                    | 6,075,362            | 4,881,343            |
| Total net assets                                | 17,438,619           | 16,114,300           |
| Total liabilities and net assets                | <u>\$ 21,354,963</u> | <u>\$ 20,347,447</u> |

*See accompanying notes.*

# Kalkaska County Hospital Authority

## Statements of Revenues, Expenses, and Changes in Net Assets

|  | Years Ended June 30 |               |
|--|---------------------|---------------|
|  | 2006                | 2005          |
| <b>Operating revenue</b>                   |                     |               |
| Net patient service revenue                | \$ 16,883,403       | \$ 15,106,477 |
| Other                                      | 751,354             | 601,281       |
| Proportionate share revenue                | 4,238               | 171,688       |
| Total operating revenue                    | 17,638,995          | 15,879,446    |
| <b>Operating expenses</b>                  |                     |               |
| Salaries and wages                         | 7,405,724           | 7,035,464     |
| Employee benefits and payroll taxes        | 2,596,122           | 2,506,960     |
| Medical supplies and drugs                 | 1,876,642           | 1,675,056     |
| Professional services and consultant fees  | 383,244             | 367,378       |
| Purchased services                         | 2,267,302           | 2,055,867     |
| Insurance                                  | 209,988             | 172,040       |
| Utilities                                  | 497,706             | 418,222       |
| Repairs and maintenance                    | 231,468             | 174,042       |
| Depreciation and amortization              | 1,205,403           | 1,077,277     |
| Other                                      | 738,565             | 399,777       |
| Total operating expenses                   | 17,412,164          | 15,882,083    |
| Operating income (loss)                    | 226,831             | (2,637)       |
| <b>Other income (expense)</b>              |                     |               |
| Investment income                          | 74,014              | 117,683       |
| Contributions                              | 4,437               | 9,735         |
| Interest on debt related to capital assets | (67,861)            | (101,431)     |
| Tax levy revenue                           | 1,086,898           | 1,052,590     |
| Total other income                         | 1,097,488           | 1,078,577     |
| Increase in net assets                     | 1,324,319           | 1,075,940     |
| Net assets at beginning of year            | 16,114,300          | 15,038,360    |
| Net assets at end of year                  | \$ 17,438,619       | \$ 16,114,300 |

*See accompanying notes.*

# Kalkaska County Hospital Authority

## Statements of Cash Flows

|  | Years Ended June 30 |               |
|--|---------------------|---------------|
|  | 2006                | 2005          |
| <b>Operating activities</b>  |                     |               |
| Cash received from patients and third-party payors   | \$ 17,083,684       | \$ 14,768,738 |
| Cash payments to suppliers for services and goods  | (16,109,611)        | (14,746,684)  |
| Other receipts from operations   | 751,354             | 601,281       |
| Net cash provided by operating activities  | 1,725,427           | 623,335       |
| <b>Noncapital financing activities</b>   |                     |               |
| Contributions  | 4,437               | 9,735         |
| <b>Investing activities</b>  |                     |               |
| Investment income  | 74,014              | 118,183       |
| Purchase of assets limited as to use   | (1,488,808)         | (79,768)      |
| Proceeds from sales and maturities of assets limited as to use                               | 500,000             | 1,181,088     |
| Net cash provided by (used in) investing activities  | (914,794)           | 1,219,503     |
| <b>Capital and related financing activities</b>  |                     |               |
| Acquisition and construction of capital assets   | (635,703)           | (1,818,841)   |
| Proceeds from county tax levy  | 1,086,898           | 1,053,076     |
| Interest paid on long-term debt  | (61,554)            | (95,125)      |
| Principal payments on notes payable  | (700,000)           | (700,000)     |
| Net cash used in capital and related financing activities                                    | (310,359)           | (1,560,890)   |
| Net increase in cash and cash equivalents  | 504,711             | 291,683       |
| Cash and cash equivalents at beginning of year   | 2,451,361           | 2,159,678     |
| Cash and cash equivalents at end of year   | 2,956,072           | 2,451,361     |
| <b>Reconciliation of operating income (loss) to net cash flows from operating activities</b> |                     |               |
| Operating income (loss)  | 226,831             | (2,637)       |
| Adjustments to reconcile operating income (loss) to net cash from operating activities:      |                     |               |
| Depreciation and amortization  | 1,205,403           | 1,077,277     |
| Provision for uncollectible accounts   | 688,784             | 572,337       |
| (Increase) decrease in assets:   |                     |               |
| Patient accounts receivable  | (726,479)           | (863,666)     |
| Third-party settlements  | (25,812)            | (374,852)     |
| Other current assets   | (30,257)            | (56,554)      |
| Increase (decrease) in liabilities:  |                     |               |
| Trade accounts payable   | 53,657              | 233,502       |
| Third-party settlements  | 259,550             | (118,826)     |
| Other accrued liabilities  | 73,750              | 156,754       |
| Net cash provided by operating activities  | \$ 1,725,427        | \$ 623,335    |

See accompanying notes.

# Kalkaska County Hospital Authority

## Notes to Financial Statements

Years Ended June 30, 2006 and 2005

### 1. Nature of Business and Significant Accounting Policies

#### Reporting Entity and Corporate Structure

Kalkaska County Hospital Authority (the Hospital), d/b/a Kalkaska Memorial Health Center, is located in Kalkaska, Michigan, and provides inpatient, outpatient, and long-term care services primarily to the citizens of Kalkaska County, Michigan. The Hospital is organized as a governmental unit in accordance with the Joint Hospital Authority Act 47 of the Michigan Public Acts of 1984. Accordingly, the Hospital is not subject to income taxes, and no income tax provision has been recorded in the financial statements. The Hospital's financial statements are prepared on the accrual basis of accounting.

#### Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Hospital's financial activities. No component units are required to be reported in the Hospital's financial statements. The Hospital has elected not to apply provisions of relevant Financial Accounting Standard Board Statements.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less.

# **Kalkaska County Hospital Authority**

## **Notes to Financial Statements (continued)**

### **1. Nature of Business and Significant Accounting Policies (continued)**

#### **Assets Limited as to Use**

Assets limited as to use include assets designated by the Hospital's board to provide for future replacement of facilities and equipment.

#### **Property and Equipment**

Property and equipment are stated at cost. Depreciation is computed using straight-line methods over the estimated useful lives of the assets.

#### **Deferred Finance Charges**

Deferred finance charges represent legal, consulting, and financial costs associated with debt financing and are being amortized over the term of the debt agreement.

#### **Classification of Net Assets**

Net assets of the Hospital are classified into two components. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

#### **Compensated Absences**

Paid time off is charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements.

Kalkaska County Hospital Authority  
Notes to Financial Statements (continued)

**1. Nature of Business and Significant Accounting Policies (continued)**

**Revenue Recognition**

Net patient service revenue is recognized at the time services are provided and is reported net of discounts and allowances (including provision for uncollectible accounts) of \$5,051,596 in 2006 and \$4,649,693 in 2005. The Hospital is designated as a critical access hospital under Medicare regulations. Under this designation, the Hospital receives 101% of reasonable, cost-based, reimbursement for inpatient and outpatient services provided to Medicare beneficiaries.

**Operating Revenue and Expenses**

The Hospital's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services, the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care for the years ended June 30, 2006 and 2005, was \$74,230 and \$28,925, respectively.

**Proportionate Share Reimbursement Program**

The Hospital participates in the Proportionate Share Reimbursement Program sponsored by the state of Michigan. This resulted in revenue of \$4,238 and \$171,688 during the years ended June 30, 2006 and 2005, respectively.

**Reclassifications**

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 2. Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the state of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Hospital has designated three banks for the deposit of its funds. The Hospital's deposit policies are in accordance with statutory authority.

The Hospital's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits and investments may not be returned to it. The government does not have a deposit policy for custodial credit risk.

At June 30, 2006, the Hospital has \$2,754,930 of deposits (certificates of deposit, short-term money market funds, checking accounts, and savings accounts) that is uninsured and uncollateralized. The Hospital believes that due to the dollar amounts of deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Kaskaskia County Hospital Authority  
Notes to Financial Statements (continued)

**2. Deposits and Investments (continued)**

At June 30, the following investments are uninsured. Further, these investments represent investments in any one issuer exceeding 5% of total investments.

| <u>Investment</u>       | <u>Issuer</u>   | <u>Fair Value</u> |
|-------------------------|-----------------|-------------------|
| Certificates of Deposit | Huntington Bank | \$ 1,081,776      |
| Certificates of Deposit | JP Morgan Chase | \$ 657,003        |

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Hospital's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year-end, debt investments are as follows:

| <u>Investment</u>    | <u>Fair Value</u> | <u>Maturity Date</u> | <u>Call Option</u> |
|----------------------|-------------------|----------------------|--------------------|
| FHLB 4.27%           | \$ 487,655        | 9/30/2008            | Not Callable       |
| FHLB Multi-Coupon 5% | 498,440           | 4/28/2008            | Quarterly          |
| FHLB Multi-Coupon 3% | 485,313           | 9/30/2011            | Quarterly          |

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 3. Accounts Receivable

The details of accounts receivable are set forth below:

|                                       | 2006         | 2005         |
|---------------------------------------|--------------|--------------|
| Accounts receivable                   | \$ 2,932,800 | \$ 2,685,638 |
| Less:                                 |              |              |
| Allowance for uncollectible accounts  | 195,710      | 174,301      |
| Allowance for contractual adjustments | 880,907      | 694,494      |
| Net accounts receivable               | 1,856,183    | 1,816,843    |
| Other                                 | 30,344       | 35,749       |
| Total accounts receivable             | \$ 1,886,527 | \$ 1,852,592 |

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

|                                    | 2006 (%) | 2005 (%) |
|------------------------------------|----------|----------|
| Medicare                           | 32       | 32       |
| Blue Cross/Blue Shield of Michigan | 19       | 16       |
| Medicaid                           | 24       | 28       |
| Commercial insurance and HMOs      | 16       | 15       |
| Self-pay                           | 9        | 9        |
| Total                              | 100      | 100      |

### 4. Third-Party Settlements

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue increased \$154,151 and \$387,765 for the periods June 30, 2006 and 2005, respectively, related to changes in estimated third-party settlements for prior years.

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 4. Third-Party Settlements (continued)

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. For 2006, approximately 87% (84% for 2005) of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross Blue Shield of Michigan programs.

### 5. Tax Levies

The Hospital is operated under the Joint Hospital Authority Act 47 (the Act) of the Michigan Public Acts of 1984. Under this Act, by April 1 of each year, the Hospital board is required to prepare a balanced budget for the ensuing year. The budget is to ascertain what amount, if any, is to be raised by taxation from the townships belonging to the authority to meet their respective shares of the expenses over revenue. Upon certification by the Hospital board, the townships are required to pay their share from the funds they have available or from the proceeds of a tax levy. They are authorized to levy up to .4 mill, but levied .01 mill and .01 mill for the years ended June 30, 2006 and 2005, respectively. The required sums are due and payable 120 days after December 1, the date on which local taxes become due and payable in the townships.

In addition to the levy described above, the Act allows a levy up to 2 mills for not more than 10 years for capital improvements when approved at a general or special election in the townships belonging to the authority.

In May 1997, the electorate approved a 1.7 mill levy for 10 years. The proceeds from the levy are to be used to retire unlimited tax general obligation bonds. The ordinance authorizing the sale of the bonds requires the proceeds of the 1.7 mill tax levy to be deposited in a bond and interest redemption fund. The amount in excess of the debt service payments must be deposited in a capital improvement fund and used for capital improvement purposes.

Tax levy revenue is composed of the following:

|                                   | 2006                | 2005                |
|-----------------------------------|---------------------|---------------------|
| Operating tax levy                | \$ 5,420            | \$ 5,466            |
| Bond retirement 1.7 mill tax levy | 1,081,478           | 1,047,124           |
| Total                             | <u>\$ 1,086,898</u> | <u>\$ 1,052,590</u> |

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 6. Property and Equipment

Costs of capital assets related to depreciable lives for June 30, 2006, are summarized below:

|                                | 2005          | Additions    | Transfers | Retirements | 2006          | Depreciable<br>Life - Years |
|--------------------------------|---------------|--------------|-----------|-------------|---------------|-----------------------------|
| Land and land improvements     | \$ 890,587    | \$ -         | \$ 43,776 | \$ -        | \$ 934,363    | 5-25                        |
| Building                       | 14,841,355    | -            | 110,257   | -           | 14,951,612    | 15-40                       |
| Equipment                      | 5,738,782     | 340,349      | 17,795    | (41,383)    | 6,055,543     | 3-20                        |
| Construction-in-progress       | 500           | 295,354      | (171,828) | -           | 124,026*      |                             |
| Total                          | 21,471,224    | 635,703      | -         | (41,383)    | 22,065,544    |                             |
| Less accumulated depreciation: |               |              |           |             |               |                             |
| Land and land improvements     |               |              |           |             |               |                             |
| Building                       | 254,140       | 30,652       | -         | -           | 284,792       |                             |
| Equipment                      | 5,045,263     | 545,408      | -         | -           | 5,590,671     |                             |
| Total                          | 3,488,864     | 629,343      | -         | (41,383)    | 4,076,824     |                             |
| Net carrying amount            | \$ 8,788,267  | \$ 1,205,403 | \$ -      | \$ (41,383) | \$ 9,952,287  |                             |
|                                | \$ 12,682,957 | \$ (569,700) | \$ -      | \$ -        | \$ 12,113,257 |                             |

\*Construction-in-progress at June 30, 2006, is composed mainly of costs associated with the purchase of property and the renovations expected related to this property.

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 6. Property and Equipment (continued)

Costs of capital assets related to depreciable lives for June 30, 2005, are summarized below:

|                                | 2004          | Additions  | Transfers   | Retirements | 2005          | Depreciable<br>Life - Years |
|--------------------------------|---------------|------------|-------------|-------------|---------------|-----------------------------|
| Land and land improvements     | \$ 908,748    | \$         | \$          | \$ (18,161) | \$ 890,587    | 5-25                        |
| Building                       | 14,062,836    | 12,341     | 836,194     | (70,016)    | 14,841,355    | 15-40                       |
| Equipment                      | 5,069,712     | 106,466    | 1,104,390   | (541,786)   | 5,738,782     | 3-20                        |
| Construction in progress       | 241,050       | 1,700,034  | (1,940,584) |             | 500           |                             |
| Total                          | 20,282,346    | 1,818,841  | -           | (629,963)   | 21,471,224    |                             |
| Less accumulated depreciation: |               |            |             |             |               |                             |
| Land and land improvements     | 240,040       | 32,261     | -           | (18,161)    | 254,140       |                             |
| Building                       | 4,577,666     | 537,613    | -           | (70,016)    | 5,045,263     |                             |
| Equipment                      | 3,523,247     | 507,403    | -           | (541,786)   | 3,488,864     |                             |
| Total                          | 8,340,953     | 1,077,277  | -           | (629,963)   | 8,788,267     |                             |
| Net carrying amount            | \$ 11,941,393 | \$ 741,564 | \$ -        | \$ -        | \$ 12,682,957 |                             |

Kalkaska County Hospital Authority  
Notes to Financial Statements (continued)

**7. Long-Term Debt**

Long-term liability activity for the year ended June 30, 2006, was as follows:

|                   | June 30,<br>2005   | Current<br>Year<br>Additions | Current<br>Year<br>Reductions | June 30<br>2006   | Amounts<br>Due<br>Within<br>One Year |
|-------------------|--------------------|------------------------------|-------------------------------|-------------------|--------------------------------------|
| Series 1998 Bonds | <u>\$1,450,000</u> | <u>\$ —</u>                  | <u>\$ (700,000)</u>           | <u>\$ 750,000</u> | <u>\$ 750,000</u>                    |

Long-term liability activity for the year ended June 30, 2005, was as follows:

|                   | June 30<br>2004     | Current<br>Year<br>Additions | Current<br>Year<br>Reductions | June 30<br>2005    | Amounts<br>Due<br>Within<br>One Year |
|-------------------|---------------------|------------------------------|-------------------------------|--------------------|--------------------------------------|
| Series 1998 Bonds | <u>\$ 2,150,000</u> | <u>\$ —</u>                  | <u>\$ (700,000)</u>           | <u>\$1,450,000</u> | <u>\$ 700,000</u>                    |

The Kalkaska County Hospital Authority, Series 1998 unlimited tax general obligation bonds are payable solely from a \$1.7 mill tax levy and the net revenue of the Hospital. The bonds will mature April 1, 2007, and bear interest at 4.85%.

The following is a schedule by years of bond principal and interest as of June 30, 2006:

| Years Ending June 30 | Long-Term Debt    |                  |
|----------------------|-------------------|------------------|
|                      | Principal         | Interest         |
| 2007                 | <u>\$ 750,000</u> | <u>\$ 36,375</u> |

**8. Retirement Plan**

The Hospital maintains a Section 401(k) plan covering employees having worked more than 1,000 hours per year for two consecutive years. Under the terms of the plan, the Hospital will contribute 1% of employees' compensation and will match employee contributions on a sliding scale up to 4% of employee earnings. Total retirement expense was \$282,121 and \$269,026 for the years ended June 30, 2006 and 2005, respectively.

# Kalkaska County Hospital Authority

## Notes to Financial Statements (continued)

### 9. Risk Management

The Hospital is exposed to various risks of loss related to property loss, errors and omissions, employee injuries (workers' compensation), and professional liability claims, as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for the above claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three years.

The Hospital is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible toward the costs of litigating or settling any unasserted claims. In addition, the Hospital bears the risk of ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

### 10. Administrative, Laundry, and Laboratory Service Agreements

The Hospital has entered into agreements with Munson Medical Center and Munson Healthcare and Subsidiaries to receive administrative services including an administrator, accounting services, physical therapy, certain laboratory tests, and other miscellaneous services. Charges for these services to the Hospital amounted to \$1,405,300 and \$1,392,766 for the years ended June 30, 2006 and 2005, respectively, of which \$194,383 and \$277,445, respectively, is included in accounts payable.